



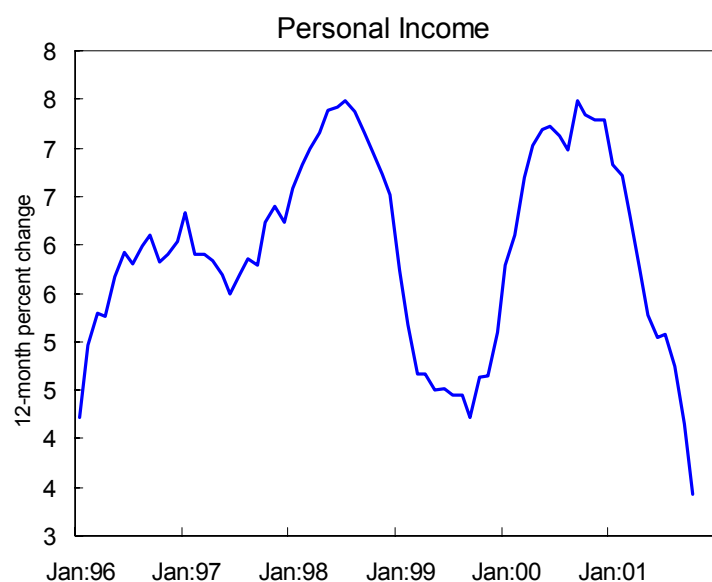
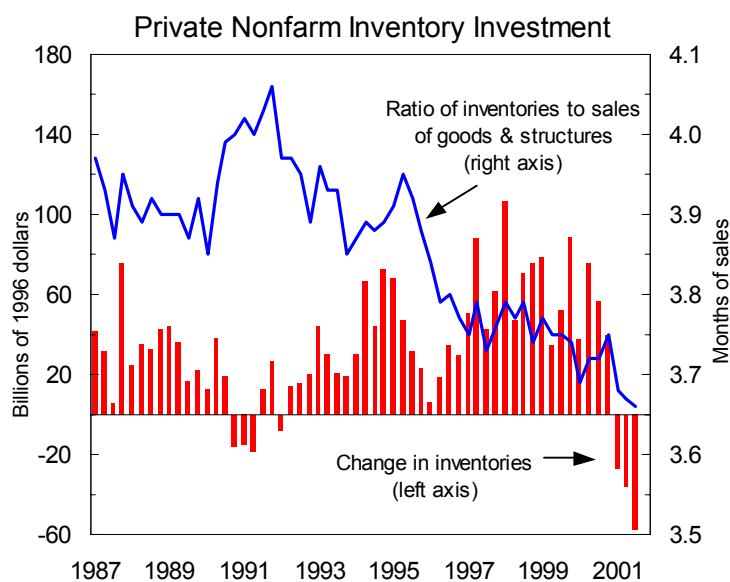
WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

December 4, 2001

Some Hopeful Signs but Recovery Remains Elusive



- **Third-quarter growth was weaker than first reported.** The Bureau of Economic Analysis revised its estimate of the decline of real GDP in the third quarter to 1.1 percent at an annual rate from its earlier estimate of a 0.4 percent decline. That downward revision reflected new information that both inventory investment and exports were weaker than previously estimated.
- **Inventories posted their third quarter of decline.** Businesses have been cutting their inventories since the start of the year. Although the inventory decline has reduced overall growth, many analysts expect that the low inventories will work to shorten the recession. With inventories lean, further declines in demand are less likely to result in accumulations of unwanted stocks that must ultimately be shed. Moreover, once demand turns around, production should respond relatively quickly.
- **Defense demands drove up durable goods orders.** According to preliminary estimates, new orders for durable goods surged by 12.8 percent in October. Most of that increase, however, stemmed from sharply increased defense orders, particularly orders for aircraft and parts. Although orders for nondefense capital goods increased as well, they only made up about half of their September decline and they remained 14.1 percent below their levels in October 2000. A survey by the National Association of Purchasing Managers indicated, that even with the increase in new orders, manufacturing continued to contract in November though less rapidly than analysts were expecting.
- **Weak labor markets continued to depress household income in October.** Personal income declined slightly and was only 3.4 percent over its level a year ago, as private-sector wages and salaries posted their third consecutive monthly decline. Weak incomes, however, did not deter consumers from spending, especially on motor vehicles. Overall, consumption rose 2.9 percent in October. Without some strengthening in labor incomes, such spending by households cannot be sustained for long.

Economy At A Glance	Nov	Oct	Sep	Aug	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000	1999
Economic Activity										
Real GDP (% growth)					-1.1	0.3	1.3	1.9	4.1	4.1
Industrial Production (% growth)		-13.5	-10.3	-4.7	-4.8	-5.9	-6.1	-2.6	4.5	3.7
Capacity Utilization (Level, %)		74.6	75.5	76.3	76.2	77.4	78.9	80.7	81.8	82.2
Civilian Unemployment Rate (Level, %)*		5.4	4.9	4.9	4.8	4.5	4.2	4.0	4.0	4.2
Housing Starts (Thousands)		1552	1572	1559	1594	1623	1627	1539	1575	1647
Real Disposable Personal Income (% growth)		-25.1	-7.0	25.3	12.8	2.4	2.7	4.2	3.5	2.5
Retail Sales (% growth)		128.5	-23.5	2.7	-1.3	5.2	5.0	0.3	7.6	8.2
Personal Saving Rate (Level, %)		0.2	4.6	4.2	3.7	1.1	1.1	1.0	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		-3.5	4.9	1.2	0.7	3.1	4.2	2.9	3.4	2.2
Core CPI-U Inflation (% growth)		2.4	2.4	2.4	2.5	2.6	3.2	2.4	2.4	2.1
Compensation per Hour (% growth)*					3.6	4.1	4.5	3.6	4.4	3.5
Output per Hour (% growth)*					2.7	2.2	0.1	2.3	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.9	2.2	2.6	3.4	3.2	3.7	4.8	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	4.7	4.6	4.7	5.0	5.0	5.3	5.1	5.6	6.0	5.7
Federal Funds Rate (Level, %)	2.1	2.5	3.1	3.7	3.6	4.3	5.6	6.5	6.2	5.0
Dow Jones Industrial Avg (Index Level)	9722	9221	9043	10315	9934	10669	10513	10586	10735	10465

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **Factory Orders, October** [Release: Thursday, December 6, 2001]
- **Productivity and Costs, Third Quarter** [Release: Thursday, December 6, 2001]
- **The Employment Situation, November** [Release: Friday, December 7, 2001]